

104TH CONGRESS  
1ST SESSION

# H. R. 1040

To amend the Internal Revenue Code of 1986 to increase the deduction for retirement savings, to permit nonemployed spouses a full IRA deduction, and for other purposes.

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## IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 24, 1995

Mr. BAKER of California (for himself, Mr. STEARNS, Mr. LIPINSKI, Mr. FORBES, Mr. CANADY, Mr. EMERSON, Mr. FIELDS of Texas, Mrs. MEYERS of Kansas, Mr. SOLOMON, Mr. BACHUS, Mr. CALVERT, Mr. HOSTETTLER, Mr. BAKER of Louisiana, Mr. ENGLISH of Pennsylvania, Mr. WICKER, and Mr. McCRERY) introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to increase the deduction for retirement savings, to permit nonemployed spouses a full IRA deduction, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Family Reinvestment  
5 Act of 1995”.

1 **SEC. 2. MODIFICATIONS TO IRA DEDUCTION.**

2 (a) INCREASE IN MAXIMUM AMOUNT OF DEDUC-  
 3 TION.—Subparagraph (A) of section 219(b)(1) of the In-  
 4 ternal Revenue Code of 1986 (relating to maximum  
 5 amount of deduction) is amended by striking “\$2,000”  
 6 and inserting “\$2,500”.

7 (b) INCREASE IN INCOME PHASEOUT LEVELS.—

8 (1) IN GENERAL.—Subparagraph (B) of section  
 9 219(g)(3) of such Code is amended—

10 (A) by striking “\$40,000” and inserting  
 11 “\$200,000”, and

12 (B) by striking “\$25,000” and inserting  
 13 “\$100,000”.

14 (2) PHASEIN OF DEDUCTION BY REASON OF IN-  
 15 CREASE IN PHASEOUT LEVELS.—Paragraph (3) of  
 16 section 219(g) of such Code is amended by adding  
 17 at the end the following new subparagraph:

18 “(C) PHASEIN OF DEDUCTION BY REASON  
 19 OF INCREASE IN PHASEOUT LEVELS.—In the  
 20 case of taxable years beginning before January  
 21 1, 2004—

22 “(i) IN GENERAL.—In the case of a  
 23 taxpayer to whom this subparagraph ap-  
 24 plies for any taxable year, each of the dol-  
 25 lar limitations referred to in paragraph (1)  
 26 for such taxable year shall be treated as

1 being the limitation determined in accord-  
 2 ance with the following table:

<b>“In the case of taxable years beginning in:</b>	<b>The limitation is:</b>
1995 .....	\$ 250
1996 .....	500
1997 .....	750
1998 .....	1,000
1999 .....	1,250
2000 .....	1,500
2001 .....	1,750
2002 .....	2,000
2003 .....	2,250.

3 “(ii) TAXPAYERS TO WHOM SUBPARA-  
 4 GRAPH APPLIES.—This subparagraph shall  
 5 apply to any taxpayer whose adjusted  
 6 gross income for the taxable year ex-  
 7 ceeds—

8 “(I) \$50,000 in a case to which  
 9 subparagraph (B)(i) applies, and

10 “(II) \$35,000 in a case to which  
 11 subparagraph (B)(ii) applies.”.

12 (c) IRA DEDUCTION ALLOWED TO NONEMPLOYED  
 13 SPOUSES.—Subsection (c) of section 219 of such Code is  
 14 amended to read as follows:

15 “(c) SPECIAL RULES FOR CERTAIN MARRIED INDIV-  
 16 IDUALS.—

17 “(1) IN GENERAL.—In the case of an individual  
 18 to whom this paragraph applies for the taxable year,  
 19 the limitation of paragraph (1) of subsection (b)  
 20 shall be equal to the lesser of—

1 “(A) \$2,500, or

2 “(B) the sum of—

3 “(i) the compensation includible in  
4 such individual’s gross income for the tax-  
5 able year, plus

6 “(ii) the compensation includible in  
7 the gross income of such individual’s  
8 spouse for the taxable year reduced by the  
9 amount allowable as a deduction under  
10 subsection (a) to such spouse for such tax-  
11 able year.

12 “(2) INDIVIDUALS TO WHOM PARAGRAPH (1)  
13 APPLIES.—Paragraph (1) shall apply to any individ-  
14 ual if—

15 “(A) such individual files a joint return for  
16 the taxable year, and

17 “(B) the amount of compensation (if any)  
18 includible in such individual’s gross income for  
19 the taxable year is less than the compensation  
20 includible in the gross income of such individ-  
21 ual’s spouse for the taxable year.”

22 (d) INFLATION ADJUSTMENTS.—Subsection (f) of  
23 section 219 of such Code is amended by adding at the  
24 end thereof the following new paragraph:

1 “(8) INFLATION ADJUSTMENTS.—In the case of  
 2 a taxable year beginning in a calendar year after  
 3 2004, each dollar amount set forth in subsections  
 4 (b)(1)(A), (c)(1)(A), and (g)(3)(B) shall be in-  
 5 creased by an amount equal to—

6 “(A) such dollar amount, multiplied by

7 “(B) the cost-of-living adjustment deter-  
 8 mined under section 1(f)(3) for such calendar  
 9 year by substituting ‘calendar year 2003’ for  
 10 ‘calendar year 1992’ in subparagraph (B)  
 11 thereof.

12 If any increase determined under the preceding sen-  
 13 tence is not a multiple of \$100, such increase shall  
 14 be rounded to the nearest multiple of \$100.”

15 (e) CONFORMING AMENDMENTS.—

16 (1) Subsections (a)(1) and (b) of section 408(a)  
 17 of such Code are each amended by striking  
 18 “\$2,000” and inserting “the dollar limitation in ef-  
 19 fect under section 219(b)(1)(A)”.

20 (2) Subparagraph (A) of section 408(d)(5) of  
 21 such Code is amended by striking “\$2,250” and in-  
 22 serting “the dollar limitation in effect under section  
 23 219(b)(1)(A)”.

24 (3) Subsection (j) of section 408 of such Code  
 25 is amended by striking “the \$2,000 amounts con-

1       tained” and inserting “the dollar limitations referred  
2       to”.

3       (f) EFFECTIVE DATE.—The amendments made by  
4 this section shall apply to taxable years beginning after  
5 December 31, 1994.

6       **SEC. 3. REPAYABLE DISTRIBUTIONS FROM INDIVIDUAL RE-**  
7                               **TIREMENT ACCOUNTS FOR EDUCATIONAL**  
8                               **EXPENSES AND FIRST-TIME HOMEBUYERS.**

9       (a) GENERAL RULE.—Section 408 of the Internal  
10 Revenue Code of 1986 (relating to individual retirement  
11 accounts) is amended by redesignating subsection (p) as  
12 subsection (q) and by inserting after subsection (o) the  
13 following new subsection:

14       “(p) REPAYABLE DISTRIBUTIONS FROM INDIVIDUAL  
15 RETIREMENT ACCOUNTS FOR EDUCATIONAL EXPENSES  
16 AND FIRST-TIME HOMEBUYERS.—

17               “(1) IN GENERAL.—Notwithstanding any other  
18 provision of this section, gross income shall not in-  
19 clude any qualified distribution.

20               “(2) REPAYMENT REQUIREMENT.—

21                       “(A) ADDITION TO TAX.—If the required  
22 recontributions made by the taxpayer during  
23 the repayment period are less than the total re-  
24 quired repayment, the tax imposed by this  
25 chapter for the last taxable year in the repay-

1           ment period shall be increased by the amount  
2           determined under subparagraph (B).

3           “(B) DETERMINATION OF AMOUNT.—The  
4           amount determined under this subparagraph  
5           shall be an amount which bears the same ratio  
6           to the adjusted tax amount as—

7                   “(i) the required recontributions dur-  
8                   ing the repayment period, bear to

9                   “(ii) the total required repayment.

10          “(C) TOTAL REQUIRED REPAYMENT.—For  
11          purposes of this paragraph, the term ‘total re-  
12          quired repayment’ means the sum of—

13                   “(i) the qualified distribution, plus

14                   “(ii) interest on the non-recontributed  
15                   balance of such distribution for the repay-  
16                   ment period computed at the prime rate  
17                   and compounded annually.

18          “(D) REPAYMENT PERIOD.—For purposes  
19          of this paragraph, the term ‘repayment period’  
20          means, with respect to any qualified distribu-  
21          tion, the taxable year in which such distribution  
22          is received and the 15 succeeding taxable years  
23          (10 succeeding taxable years in the case of a  
24          qualified distribution described in paragraph  
25          (3)(B)).

1           “(E) ADJUSTED TAX AMOUNT.—For pur-  
2           poses of this paragraph, the term ‘adjusted tax  
3           amount’ means, with respect to any qualified  
4           distribution, the sum of—

5                   “(i) the aggregate reduction in the tax  
6                   imposed by this chapter for the taxable  
7                   year in which such distribution is received  
8                   by reason of the exclusion under paragraph  
9                   (1), and

10                   “(ii) interest on the amount of such  
11                   reduction for the repayment period com-  
12                   puted at the prime rate and compounded  
13                   annually.

14           “(F) PRIME RATE.—For purposes of this  
15           paragraph, the term ‘prime rate’ means the av-  
16           erage predominant prime rate quoted by com-  
17           mercial banks to large business, as determined  
18           by the Board of Governors of the Federal Re-  
19           serve System.

20           “(3) QUALIFIED DISTRIBUTION.—For purposes  
21           of this paragraph, the term ‘qualified distribution’  
22           means any distributions to an individual from an in-  
23           dividual retirement plan—

24                   “(A) if such distributions are qualified  
25                   first-time homebuyer distributions, or



1           “(B) to the extent such distributions do  
2           not exceed the qualified higher education ex-  
3           penses of the taxpayer for the taxable year in  
4           which received.

5           The term ‘qualified distribution’ shall not include  
6           any distribution to the extent such distribution re-  
7           duces the balance of the amounts in individual re-  
8           tirement plans of the taxpayer below \$1,000.

9           “(4) QUALIFIED FIRST-TIME HOMEBUYER DIS-  
10          TRIBUTIONS.—For purposes of this subsection—

11           “(A) IN GENERAL.—The term ‘qualified  
12           first-time homebuyer distribution’ means any  
13           payment or distribution received by an individ-  
14           ual to the extent such payment or distribution  
15           is used by the individual before the close of the  
16           60th day after the day on which such payment  
17           or distribution is received to pay qualified ac-  
18           quisition costs with respect to a principal resi-  
19           dence of a first-time homebuyer who is such in-  
20           dividual or the spouse, child, or grandchild of  
21           such individual.

22           “(B) QUALIFIED ACQUISITION COSTS.—  
23           For purposes of this paragraph, the term  
24           ‘qualified acquisition costs’ means the costs of  
25           acquiring, constructing, or reconstructing a res-

1           idence. Such term includes any usual or reason-  
2           able settlement, financing, or other closing  
3           costs.

4           “(C) FIRST-TIME HOMEBUYER; OTHER  
5           DEFINITIONS.—For purposes of this paragraph:

6           “(i) FIRST-TIME HOMEBUYER.—The  
7           term ‘first-time homebuyer’ means any in-  
8           dividual if—

9           “(I) such individual (and if mar-  
10          ried, such individual’s spouse) had no  
11          present ownership interest in a prin-  
12          cipal residence during the 3-year pe-  
13          riod ending on the date of acquisition  
14          of the principal residence to which  
15          this paragraph applies, and

16          “(II) subsection (a)(6), (h), or  
17          (k) of section 1034 did not suspend  
18          the running of any period of time  
19          specified in section 1034 with respect  
20          to such individual on the day before  
21          the date the distribution is applied  
22          pursuant to subparagraph (A)(ii).

23          “(ii) PRINCIPAL RESIDENCE.—The  
24          term ‘principal residence’ has the same  
25          meaning as when used in section 1034.

1 “(iii) DATE OF ACQUISITION.—The  
2 term ‘date of acquisition’ means the date—

3 “(I) on which a binding contract  
4 to acquire the principal residence to  
5 which subparagraph (A) applies is en-  
6 tered into, or

7 “(II) on which construction or re-  
8 construction of such a principal resi-  
9 dence is commenced.

10 “(D) SPECIAL RULE WHERE DELAY IN AC-  
11 QUISTION.—If any distribution from any indi-  
12 vidual retirement plan fails to meet the require-  
13 ments of subparagraph (A) solely by reason of  
14 a delay or cancellation of the purchase or con-  
15 struction of the residence, the amount of the  
16 distribution may be contributed to an individual  
17 retirement plan as provided in subsection  
18 (d)(3)(A)(i) (determined by substituting ‘120  
19 days’ for ‘60 days’ in such section), except  
20 that—

21 “(i) subsection (d)(3)(B) shall not be  
22 applied to such contribution, and

23 “(ii) such amount shall not be taken  
24 into account in determining whether sub-

1 section (d)(3)(A)(i) applies to any other  
2 amount.

3 “(5) QUALIFIED HIGHER EDUCATION EX-  
4 PENSES.—For purposes of this subsection:

5 “(A) IN GENERAL.—The term ‘qualified  
6 higher education expenses’ means tuition, fees,  
7 books, supplies, and equipment required for the  
8 enrollment or attendance of—

9 “(i) the taxpayer,

10 “(ii) the taxpayer’s spouse, or

11 “(iii) the taxpayer’s child (as defined  
12 in section 151(c)(3)) or grandchild,  
13 at an eligible educational institution (as defined  
14 in section 135(c)(3)).

15 “(B) COORDINATION WITH SAVINGS BOND  
16 PROVISIONS.—The amount of qualified higher  
17 education expenses for any taxable year shall be  
18 reduced by any amount excludable from gross  
19 income under section 135.

20 “(6) RECONTRIBUTION OF QUALIFIED DIS-  
21 TRIBUTIONS.—

22 “(A) IN GENERAL.—If an individual re-  
23 ceived a qualified distribution, such individual  
24 shall make required recontributions to an indi-

vidual retirement plan in the manner provided  
in this paragraph.

“(B) METHOD OF MAKING RECON-  
TRIBUTION.—Any required retribution—

“(i) shall be made during the repay-  
ment period for the qualified distribution,

“(ii) shall not exceed the required re-  
payment amount reduced by any prior  
retribution under this paragraph with  
respect to such distribution, and

“(iii) shall be made by making a pay-  
ment in cash for the benefit of such indi-  
vidual to an individual retirement plan.

An individual making a required retribution  
under this paragraph shall designate (in the  
manner prescribed by the Secretary) such con-  
tribution as a required retribution under  
this paragraph and shall specify the qualified  
distribution in respect of which such  
retribution is being made.

“(C) TREATED AS ROLLOVER CONTRIBU-  
TION.—For purposes of this title, any required  
retribution under this paragraph shall be  
treated as a rollover contribution described in  
subsection (d)(3).

1 “(7) OTHER SPECIAL RULES.—

2 “(A) BASIS RULES NOT AFFECTED.—The  
3 tax treatment under this chapter of any dis-  
4 tribution (other than a qualified distribution)  
5 shall be determined as if this subsection had  
6 not been enacted.

7 “(B) AGGREGATION RULES.—For purposes  
8 of this subsection—

9 “(i) all qualified distributions de-  
10 scribed in paragraph (3)(A) received by an  
11 individual during a taxable year shall be  
12 treated as a single distribution so de-  
13 scribed, and

14 “(ii) all qualified distributions de-  
15 scribed in paragraph (3)(B) received by an  
16 individual during a taxable year shall be  
17 treated as a single distribution so de-  
18 scribed.”

19 (b) EFFECTIVE DATE.—The amendment made by  
20 this section shall apply to distributions received in taxable  
21 years beginning after December 31, 1994.

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